

AGENCY FOR INTERNATIONAL DEVELOPMENT
CONTRACT OPERATIONS

OFFICE OF RESEARCH, EVALUATION AND
PLANNING ASSISTANCE STAFF

(PART 1)

TWENTY-THIRD REPORT

BY THE

COMMITTEE ON GOVERNMENT
OPERATIONS



SEPTEMBER 19, 1962.—Committed to the Committee of the Whole House
on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, D.C., September 19, 1962.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: By direction of the Committee on Government Operations, I submit herewith the committee's 23d report to the 87th Congress. The committee's report is based on a study made by its Foreign Operations and Monetary Affairs Subcommittee.

WILLIAM L. DAWSON, *Chairman.*

LETTER OF TRANSMITTAL

Hon. John W. McManis,
Speaker of the House of Representatives,
Washington, D.C.

Dear Mr. Speaker: By direction of the Committee on Foreign-
most Operations, I submit herewith the report of the Committee on
to the 87th Congress. The Committee report is based on a study
made by the Foreign Operations and Information Administration
January 14, 1960, and is

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87TH CONGRESS }
2d Session }

HOUSE OF REPRESENTATIVES }

REPORT
No. 2436

AGENCY FOR INTERNATIONAL DEVELOPMENT CONTRACT OPERATIONS

Office of Research, Evaluation, and Planning Assistance Staff (Part 1)

SEPTEMBER 19, 1962.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. DAWSON, from the Committee on Government Operations,
submitted the following

TWENTY-THIRD REPORT

BASED ON A STUDY BY THE FOREIGN OPERATIONS AND MONETARY
AFFAIRS SUBCOMMITTEE

On September 19, 1962, the Committee on Government Operations had before it for consideration a report entitled "Agency for International Development Contract Operations, Office of Research, Evaluation and Planning Assistance Staff (Part 1)." Upon motion made and seconded, the report was approved and adopted as the report of the full committee. The chairman was directed to transmit a copy to the Speaker of the House.

FINDINGS AND CONCLUSIONS

1. The Research, Evaluation, and Planning Assistance Staff (REPAS) of the Agency for International Development (AID) has entered into contracts without following normal and businesslike procedures to assure procurement of property and services to the best advantage of the Government.

2. The Acting Director of REPAS, who, under this contracting authority, has obligated approximately \$8½ million during his first 6 months in office, lacks administrative and contracting experience, and should have been supported and controlled by administrative, legal, and contracting personnel from elsewhere in AID. He es-

pouses and exercises a degree of flexibility and loose practices in contracting inconsistent with acceptable Government and business procurement principles.

3. There was no requirement that REPAS contracts be approved by the Office of the General Counsel or the Audit Division of the Controller.

4. Two REPAS contracts, one for a solar-powered boat, the other for television receivers, involving more than \$400,000, were entered into to the disadvantage of the Government, induced in part by the reliance by REPAS on incorrect statements made by AID's Communications Resources Division.

5. Contracts of the type usually identified as purchases of commodities or identifiable end products were misrepresented by the Communications Resources Division as research projects so that they could be funded by REPAS.

6. For the purpose of awarding the contracts to firms of its choice, the Communications Resources Division represented to the Agency in each case that the contract recommended was the sole source of the commodities involved. This was not the case.

7. The solar boat project contract was promoted by an AID technician who was planning to make a personal profit from the venture.

8. Immediately prior to his employment by the Communications Resources Division, the technician had been in negotiation with the contractor, seeking to induce him to finance the solar boat and a fee for personal services on an expedition to Surinam in return for the publicity value to the contractor.

9. The contractor had agreed to cosponsor the project if the technician could provide another source to share the costs involved. In quest of such a cosponsor, the technician succeeded in so "selling it" to AID that AID agreed to finance the entire scheme, with the technician on the payroll, and paying for both the boat and the expedition. The Agency was remiss in not exploring the contractor's previous willingness to share the costs and other features of the proposal before committing Government funds in so speculative an endeavor.

10. While he was employed by AID, the technician was granted leave to travel from Washington, D.C., to the place of business of the contractor in California at the contractor's expense.

11. AID permitted the technician to deal with the contractor in such an informal and unorthodox manner that it is difficult to determine whether he was representing Government or personal interest.

12. The representations by the Chief of the Communications Resources Division to the Agency that there was an "urgent requirement" for 1,000 23-inch transistorized television receivers at a cost of \$400,000 are not supported by the facts.

13. The real "urgency" of the matter grew out of a desire to obligate funds for the receivers before June 30, 1962, the close of fiscal year 1962; otherwise the funds would have reverted to the Treasury.

14. The Communications Resources Division, in a headlong move to obligate available funds before the last day of the fiscal year, used meaningless last-minute telephone contacts with several television manufacturing firms as a cover for their failure to make a proper determination with respect to the availability of other sources of supply.

15. A special assistant to the Acting Director of REPAS interfered with the efforts of the contract negotiator to get the lowest contract unit price for the Government.

16. As a result of the haste to prevent fiscal year 1962 funds from reverting to the U.S. Treasury, AID purchased 1,000 television receivers of a type yet to be produced or marketed, relying entirely upon a manufacturer's exhibition of a prototype model. Testing was limited to observation of picture quality and casual inspection of the set by AID personnel with no experience or competence to make any technical evaluation.

17. AID does not know where or specifically how the 1,000 sets are to be used, nor have they provided any reasonable justification for the purchase.

18. As a result of the Communications Resources Division's actions which eliminated competition, AID paid a premium price for the receivers. In the course of the subcommittee's public hearings, a competitive manufacturer offered AID receivers of the same specifications for \$141 less per set than the negotiated price; \$141,000 was thereby lost to the Government because the employees involved failed to follow established procedures or exercise reasonable diligence.

19. The standard contract termination clause was inadvertently omitted as a result of the undue haste with which the AID negotiator was required to complete the contract.

20. In their eagerness to enter into contracts to advance their pet schemes and projects, some AID employees acted more as manufacturers' representatives than as agents of the Government.

21. AID files are scattered throughout the Agency in such a haphazard manner as to militate against complete knowledge of facts required by personnel responsible for related operations.

RECOMMENDATIONS

It is recommended that the Agency for International Development take such action as may be necessary to—

1. Withdraw contracting authority from the Director, REPAS, or surround such authority with the safeguards of personnel competent in the field of contracting.

2. Insure that in research contracting, particularly with a sole source, there be strict adherence to the principles designed to assure adequate protection to the Government.

3. Establish a requirement that no research contract calling for the expenditure of Agency funds be executed without approval by the Office of General Counsel.

4. Insure proper and expeditious filing in official files of the Agency of all documentary material relating to Agency business, whether officially or personally addressed.

5. Establish uniformity of contracting procedures and criteria throughout AID.

6. Limit the research activities of REPAS to the collection, organization, and evaluation of available data which may be used to increase the economy, efficiency, and effectiveness of the AID program.

7. Require that no office within AID having contracting authority obligate more than 25 percent of the funds allotted to that office within the last quarter of the fiscal year.

8. Protect the Government's interests by requiring that no contract shall be let without a termination clause.

9. Insure that, in the procurement of property or services, established Government procurement practices not be bypassed in the guise of "research."

The subcommittee further recommends that where the Government's interests will be served, any contract negotiated with a sole source, and which has not been fully performed, shall be canceled immediately upon a determination by AID that comparable commodities or services were obtainable from another source at the time the contract was negotiated.

INTRODUCTION

In the Foreign Assistance Act of 1961, the Congress, at the request of the executive branch, enacted a provision which for the first time specifically provided for research to make more effective use of aid funds.

TITLE V—DEVELOPMENT RESEARCH

SEC. 241. GENERAL AUTHORITY.—The President is authorized to use funds made available for this part to carry out programs of research into, and evaluation of, the process of economic development in less developed friendly countries and areas, into the factors affecting the relative success and costs of development activities, and into the means, techniques, and such other aspects of development assistance as he may determine, in order to render such assistance of increasing value and benefit.

The authorization thus vested in the President was delegated by him to the Administrator of the new Agency for International Development (AID). By general notice dated December 29, 1961, there was established within AID the Research, Evaluation and Planning Assistance Staff (REPAS), and among its duties was that of administering the research activities authorized by section 241 above. Dr. Edward C. Fei was made Acting Director of the entire REPAS organization, as well as head of its Research Division. Two other divisions were established, a Planning Assistance Division and an Evaluation Division. In addition, the Technical Assistance Study Group, which had been functioning in the predecessor agency to AID, was transferred to REPAS.

This report is particularly concerned with the Research Division, the functions of which are spelled out in the AID general notice as:

A. Identifies and assesses the critical limitations or major barriers such as lack of technical or material resources, or lack of basic social, political, and economic institutional structures, which are impeding the development of the emerging countries; arranges for the continual exchange of information with the regional bureaus on such problems and on research findings applicable to them.

B. Establishes priorities for research requirements and ascertains where the research can best be carried out—by the Agency or other governmental units, universities or other private insti-

tutions, and whether in the United States, other developed nations or in the emerging countries themselves.

C. Formulates and executes a comprehensive research program aimed at overcoming barriers to institutional development, and programs which will be helpful in assuring most effective use of development assistance resources.

D. Guides the REPAS executive officer in writing research project specifications and contracts; selects the contractor based on recommendations of the executive officer; assists in the negotiation of contracts.

E. Assembles data gathered from research programs carried out by the agency, other governmental units, or private institutions; reviews and assesses the final research findings, and in coordination with other divisions of REPAS and other agency offices, assists the regional bureaus in the incorporation of improved techniques and knowledge in their programs and projects.

F. Serves as a clearing house for receipt of specific research project proposals, whether formulated within or outside the agency; reviews the proposals and recommends to the Director those projects warranting support.

G. In coordination with the regional bureaus and other agency program offices, develops and undertakes pilot programs and experiments as part of the research programs, and as a basis of transition from the research to the operational stage.

H. Assists in the development and improvement of research in the emerging countries to increase their own capabilities for the formulation and management of their development programs.

A major function of the Foreign Operations and Monetary Affairs Subcommittee is to investigate the efficiency and economy of operation of the U.S. foreign aid program. In furtherance of this responsibility, the subcommittee undertook to examine the manner in which contracts have been awarded by REPAS.¹

During the first 6 months of its existence, that office entered into contracts calling for the expenditure of approximately \$8½ million.² Approximately 70 percent of that amount was obligated during the last 2½ weeks of the fiscal year, and approximately 40 percent of this amount was obligated during the last few days of the fiscal year. During the course of the subcommittee's hearings, Dr. Fei estimated that \$20 million will be expended by this office in fiscal year 1963.

THE SOLAR-POWERED BOAT

On May 25, 1962, AID entered into a purchase order contract with the Hoffman Electronics Corp. of El Monte, Calif., for the purchase and testing of a solar-powered boat, consisting of a collapsible boat, a propulsion system, a modularized solar power panel of solar cells with an output of 100 watts, and related equipment, at a cost of \$28,625.

According to AID, the solar-powered boat would be used to cruise the rivers of Surinam in order to—

Test performance of solar-powered battery-recharging centers for communications equipment and various other

¹ See also H.Rept. 2012, 85th Cong., 2d sess., Foreign Aid Construction Projects.

² See app. A for list of contracts.

low-wattage powered tools (winch, drills, pumping equipment, etc.).

Focus attention on the peacetime terrestrial uses of solar power so as to generate demand and motivation for privately financed R. & D. programs designed rapidly to reduce the cost of solar cells.

The evidence as developed by the subcommittee suggests that perhaps less impersonal reasons may have contributed significant motivation for entering into this contract.

The subcommittee found that the General Services Administration (GSA) acted for AID in this procurement and that at the latter's request the contract was not awarded on the basis of competitive bidding but was negotiated with the Hoffman Electronics Corp. An accompanying requisition from AID to GSA stated that complete justification for the sole source procurement was available. However, neither the files of the Agency nor the statements of Agency witnesses before the subcommittee support this statement. To the contrary, the subcommittee established that AID made no effort to determine whether the solar cells and related equipment could have been procured more economically elsewhere.

Charles M. Dinneen, Deputy Assistant General Counsel, General Services Administration, testified that GSA has had an agreement with AID and its predecessor, the International Cooperation Administration (ICA), under which GSA acts as agent for AID in making purchases in accordance with specific directives of AID.³ According to Mr. Dinneen, GSA construes the agreement language to mean that GSA will follow explicitly the directions given by AID so long as GSA has no knowledge of any preceding actions which might make it "take a second look." Applied to the instant procurement, the mere statement that a justification existed to proceed with the Hoffman company as the sole contractor was sufficient, under the agreement, to bind GSA to negotiate solely with that contractor.

The "Unsolicited Proposal"

From the subcommittee's study, it appears that AID uses a device known as an "unsolicited proposal" as a means of avoiding competitive bidding.

Although AID policy recognizes the protection afforded the Government by competitive bidding,⁴ in practice the Agency makes use of the "unsolicited proposal" as justification for dealing with a sole source. Although this gimmick finds no sanction in the AID procurement regulations, it is apparently an accepted practice in that Agency. It may have some merit when the proposal is truly unsolicited, presents a matter of interest to the Government, and has been developed independently by the proposer. However, if this were the original idea, it has been prostituted by AID, as will be seen from the subcommittee's study.

³ Total dollar value of purchases by General Services Administration for the Agency for International Development during fiscal year 1962: \$37,082,000.

Dollar value of purchases of proprietary products and services based on AID statement of justification: \$5,005,736.

Percentage relationship: 13.2 percent.

⁴ Sec. 7-2.102 of ICA procurement regulations reads:

"Although ICA is exempt from all legal requirements with respect to the use of formal advertising, it is the policy of the agency to employ this method of procurement whenever it is practical to do so in the best interests of the Government."

In the instant case, under date of March 13, 1962, the Hoffman company submitted its proposal which was characterized on the cover page as "unsolicited." To the credit of the company, however, it should be pointed out that it frankly enclosed the word within quotation marks. A memorandum from John Hoke, an AID employee, to Andrew H. Brown of the National Geographic Society, contains the following:

Yesterday the Hoffman people submitted an "unsolicited" proposal to the AID R. & D. people on the solar boat. This, of course, had been worked out well in advance, so that their own proposal mirrored that which was prepared by the AID R. & D. people for their own internal planning. Both are enclosed so that you can be kept up to date. We're not in orbit yet, but it looks like a good shoot. * * *

Origin of the Solar Boat

On January 22, 1962, John Hoke was employed by AID as a consultant in the Communications Resources Division at \$35 per day. He had previously been employed by ICA and for a period of 4 years had been stationed in Surinam as a communications media officer. During his stay there, he wrote an article on one of the animals of the area, the three-toed sloth. This he sold to the National Geographic Society. While in Surinam, Hoke also became interested in solar cells, and after he left the Agency in the summer of 1961 he devoted considerable time in an effort to find a sponsor for a solar-powered boat in which he could cruise the rivers of Surinam. He sought assistance both from the Army (financing the expedition cost) and from electronics companies (contribution of solar panel, boat, equipment, and salary). He met with little success, for all he had to offer in return was such publicity as the venture might engender. Early in January 1962, the Hoffman Electronics Corp. evidenced interest in the idea, but after Hoke became reemployed by AID, he appears to have changed his strategy and sought to obtain financing by the Government instead of private industry and, as could be expected, the company's interest in sponsoring the venture waned. This, of course, had the effect of putting pressure on AID to finance the entire cost of the project and the record indicates that Hoke did not permit this pressure to diminish.

Personal-Official Conflict

The testimony at the hearing and the documentary evidence disclose a failure by Hoke to delineate between his official and his personal positions. Some of his correspondence with the Hoffman company about the project after he became employed by AID is written on his own letterhead, some on official stationery. Much of such correspondence was retained in his personal files and never reached the official files of AID. From the wording of some of his letters one would have difficulty in deciding whether Hoke was working for AID or Hoffman Electronics. He at least gave the impression of being predominantly preoccupied with the interests of the latter. For

example, on February 19, 1962, Hoke wrote to Ted Hoffman of the Hoffman company as follows:

DEAR TED: * * * Friday morning, I spent some time with Miss Gulick⁵—to bring her up to date on the outcome of our meeting. She is quite enthusiastic about the whole project, and indicated that there is provision in her budget for this kind of small power development. I had lunch with Lyons, to give him this background. He intends to meet with Lady Gulick, following an additional meeting with Winfield. I see no problems here, provided we can come up with something that is of direct value to them—in exchange for their financing a part of the venture. What this is to be, had better be given some thought * * *.

Again, on April 14, 1962, after Dr. Fei had approved the project and after Hoffman had submitted its "unsolicited" proposal, Hoke wrote to Mr. Ted Hoffman on Hoke's own stationery that—

because of some recent developments surrounding the solar boat project it is likely we will be telephoning you on Monday from your Washington office.

The development to which he referred was an indication which had been received from the Army that it was not interested in some of the objectives of the venture and that AID was considering undertaking the costs of the expedition. In the letter Hoke said that—

things would be made much simpler and mutually rewarding if AID could undertake the whole venture.

The murkiness of the personal-official area in which Hoke operated was further demonstrated by the fact that when, in June 1962, he visited the Hoffman plant in California in connection with the solar boat contract the Hoffman Company provided him with an automobile, without cost, for use during his stay. Hoke accepted this gratuity although he was employed by AID, AID had contracted with Hoffman to purchase the boat, and AID had financed Hoke's trip to California as official AID business.

Hoke also visited the Hoffman plant in February 1962, while on leave from AID. After completing 3 days of conferring with the Hoffman Co. he remained in California an additional day for which he claimed payment at his daily rate of \$35 from AID. It is interesting to note that on that date, February 15, 1962, he also received reimbursement from Hoffman for his hotel, meals, and telephone expenses.

The whole solar boat venture appears to take on an even more personal aspect when his relationship with the National Geographic Society is considered. Before Hoke became reemployed by AID in January 1962, he had had discussions with the National Geographic looking toward his writing an article for publication in the National Geographic magazine covering his proposed Surinam expedition.

After Hoke became reemployed by AID, he continued to keep representatives of the National Geographic Society abreast of progress of the venture. The contract with Hoffman was signed on May 25,

⁵ Mrs. Frances A. Gulick is a Research Specialist in REPAS who subsequently became project manager of the solar boat project.

1962. On July 12, 1962, Hoke had a meeting with National Geographic representatives which Mrs. Gulick attended in which, according to Hoke's testimony:

* * * We discussed this thing in terms of the fact of letting them know that we had indeed formulated a program that was now going forward, that the project had been funded and now was the time to seriously consider whether National Geographic might be interested in this venture.

Hoke had a meeting on July 20, 1962, with officials of the Society who told him that they would send a photographer to Surinam with the expedition and also stated, according to Hoke, that—

we will expect a manuscript from you, on speculation, and if it is good we will pay for it.

He received a letter from James S. Cerruti of National Geographic Society, dated August 2, which contained the following:

This is to confirm the agreement we reached in our recent conferences * * * you have agreed to write a speculative 5,000-word article for us on the expedition * * * and if it proves to be acceptable we will pay you \$1,200 for it.

On August 3, 1962, Hoke responded to Mr. Cerruti's letter, stating in part:

inasmuch as I am now back with the AID Agency, and in this instance will be writing directly about the project they are sponsoring, there need be no remuneration—or it can be a token honorarium that will go into the Agency.

It was on the same date that the subcommittee staff questioned AID officials concerning Hoke's relationship with the National Geographic Society.

On August 9, 1962, the General Services Administration advised the subcommittee that they had notified the Hoffman Electronics Corp. by telegram not to perform any further under the contract.

AID Administrator Fowler Hamilton confirmed this in his testimony before the subcommittee on August 16, 1962, stating:

* * * Performance under that contract has been suspended pending a review of all the circumstances with which you gentlemen are familiar.

ONE THOUSAND 23-INCH TRANSISTORIZED TELEVISION RECEIVERS

The Winfield Project

In June 1962, Dr. Gerald F. Winfield, Chief of the Communications Resources Division of AID, advised REPAS that an "urgent requirement has been established for the purchase of 1,000 transistorized special 23-inch television receivers employing fiscal year 1962 REPAS funds in the amount of \$400,000," and requested that purchase of the sets be negotiated with Warwick Manufacturing Co., Chicago, Ill., as the sole source of such receivers. A contract for the sets was executed on June 29, 1962, the last working day of the fiscal year.

Mr. Winfield's description of this requirement may be summarized as follows:

As an operating unit, the Communications Resources Division had ongoing responsibility to improve the effectiveness of the Agency's ability to move knowledge to people on a worldwide basis. In the exercise of this responsibility they generated the realization that transistorization of equipment and advances in low-wattage power supplies would make it possible for the Division to design a research program which would considerably extend the effectiveness of AID's educational programs overseas, with very strong emphasis on community education. In the 80 countries with which AID works, 250 million school age children are not in school, and the problem of expanding school education to take care of their needs is acute. Further, there are about 500 million adult illiterate people in these same populations. Television could be used to help educate these peoples.

He testified before the subcommittee that as he studied the "project" he came to the conclusion that he could possibly use 1,000 receivers, on the basis of the need to field test in five or six countries, with 200 receivers in each country.

Unfortunately, as it developed in subcommittee hearings, Winfield does not know where or specifically how these sets are to be used. And unfortunately for the taxpayer, the amount authorized for the purchase of the television receivers does not include the costs of generators, charging devices, antennas, and spare parts. The cost of these, according to Winfield, will be an additional \$729,500. Further costs of delivery, testing of equipment, and developing general plans and prototype materials for testing television educational programs in the field bring the total projected cost of this program to over \$1,600,000.

(At this point the subcommittee wishes to make it abundantly clear that its findings and conclusions with respect to this contract are not intended, and should not be construed as an objection to, or criticism of, the proper use of television for educational purposes.)

Mr. Winfield was able to rush the purchase of the television sets through AID on the representation that there was an "urgent requirement" for the receivers and apparently no one seriously questioned his judgment. In his testimony before the subcommittee, however, he admitted that a significant part of this urgency stemmed from the fact that the funds had to be obligated before the end of the fiscal year; i.e., by June 30, 1962. Otherwise the funds would revert to the U.S. Treasury.

"Inspection" of the Motorola Receiver

In the fall of 1961, when Winfield announced AID's interest in transistorized receivers, the Motorola Corp. was the only company that had marketed a large transistorized battery operated receiver. As a matter of fact, there is nothing in the files of AID to suggest that the Agency was giving any consideration to the use of such receivers prior to a suggestion to the Agency by the Motorola Corp., under date of May 23, 1961. The manufacturer, in September 1961, at the request of Winfield's division, shipped its 19-inch transistorized receiver to AID for trial and testing on a loan basis.

According to Winfield, when his Division received the Motorola set, it was examined by employees of the Division and was subsequently sent to the Army Signal Corps for an inspection and report thereon. According to Winfield the Signal Corps tested the set in January 1962, and he believes that either an oral or written report was relayed to him by one of his staff. He said he could not recall who made the report to him but did recall being told that the Signal Corps report indicated that the receiver was inoperable on batteries during the time it was at the Signal Corps, that there was trouble with stability of the picture which cleared up periodically, that on line current the receiver operated well and gave a reasonably good picture and that the Signal Corps criticized its size (19-inch) and the location of its speaker in terms of its use for educational purposes. Despite remembering all this detail, he could not remember who it was on his staff who had told him what the Signal Corps report was.

The facts as developed by the subcommittee bear little resemblance to Winfield's version as to what actually took place. Dr. Richard L. Rider, Winfield's radio and television adviser, had "tested" the set by using it in his home. Thereafter he delivered it to the Signal Corps to Harold Walcoff, a Corps technician. When he delivered the set, Rider observed that the set worked "very nicely" on its battery power. Walcoff's testimony disclosed that the only test he made of the set was trying it out in his home where he found it inoperable on its battery. He admitted that he had made no technical examination, and his stated qualifications raise a question as to whether he was competent to make a technical examination of the set had he chosen to do so. He even failed to check the battery to see if it was run down.

A letter was sent to the commanding officer of the Army Signal Corps, signed by Rider, the pertinent part of which is as follows:

The television receiver is the Motorola 19PI-IV "Astronaut." We would appreciate an evaluation of its sensitivity, picture quality, audio quality, overall performance, and its suitability for use in group viewing situations in underdeveloped areas.

We would also appreciate an opinion on the feasibility of undertaking a project aimed at the design of a transistorized television receiver powered by a suitable battery system, together with a practical means for recharging the batteries. It would also be useful to have an educated guess as to the possible cost of such a project.

Walcoff testified that he had never seen the letter, and did not undertake to perform the functions requested in it. In fact, the receiver had been brought to him by Rider, who had told him to evaluate its performance and stated, "I will get some official correspondence over to you people." Walcoff said he believed that he had made some notes of his observations of the television and that he believed he had written a report but he could not be sure. When he testified on August 15, 1962, he produced what purported to be an evaluation report on the set but he admitted that the report had been prepared on the day of his testimony from notes he had made the day before when he had learned from Winfield's office that a written report could not be located. From the subcommittee's investigation, it appears that no such report was ever written.

After a lapse of more than 6 months without any comment on the set which it had provided AID, Motorola, in April, requested its return, along with the Agency's comments. John E. Reilly, who succeeded Richard Rider, testified that he wrote AID's reply after he had held a telephone conversation with a Mr. Richardson, of the Signal Corps, and was informed that the set would not operate on its battery. He said that he passed this information on to Hoke, who worked in the Division, and he thinks that he may have reported it to Winfield.

The Motorola set had been returned to Winfield's Division. Reilly said that Hoke was able to operate it on batteries, but he gave Reilly an oral evaluation of the set on which Reilly based a letter of April 20, 1962, to Motorola which stated:

Thank you for your letter of April 20, 1962, regarding the Motorola all-transistorized TV receiver. We tested it quite extensively with an eye to any future possibilities for the foreign aid programs. We also sent it to the U.S. Army Signal Corps for testing and comments.

Perhaps the principal finding in our evaluation was that the charging circuit, necessarily designed to favor a battery that is somewhat delicate as regards overcharging, is much too sophisticated to allow field expedient repair. During the time the set was with us for evaluation and also at the Signal Corps, it was inoperable on battery. After going into the set we found the cutout relay shuts down too soon so that the battery never assumes full charge. Upon consulting the manual the adjustment procedures proved much too complicated for even U.S. oriented do-it-yourself homeowners and we feel this would present an insurmountable problem for the foreign nationals in the underdeveloped countries.

In all other respects the model is beautifully constructed and performs exceptionally well. We are still interested in the possibilities of using battery-operated transistorized TV sets in oversea programs.

We appreciate the opportunity of testing your set and are returning it to you.

Thank you for your interest in our overseas program.

Mr. Winfield admitted that a defective relay was a minor matter and that the difficulty Walcoff had encountered in operating the set on batteries might have been an idiosyncrasy of the particular set.

Aside from the question of the validity of the alleged deficiencies of the Motorola receiver, Reilly's letter (1) unfairly implied that the evaluation had been made by the U.S. Army Signal Corps in accordance with standards generally accepted by the electronics industry, and (2) served Winfield's determination to negotiate a contract with the Warwick Corp. on a "sole source" basis.

Mr. Winfield, in his testimony, gave other reasons for not considering Motorola in the procurement of the sets, such as the fact that it had only a 19-inch screen and that the battery it used was not the battery he thought could be used successfully overseas. However, he admitted he had not given Motorola any specifications for a larger or different set and that he did not ask Motorola whether it could produce a 23-inch set. In this connection, the subcommittee has been informed

that the adaptation of a 23-inch tube on this particular 19-inch set chassis would be a relatively simple operation.

The "Freezeout" of Competition

On January 3, 1962, the Warwick Manufacturing Co. demonstrated a prototype of a 23-inch transistorized television set to Winfield, and from that point on that firm had the inside track on AID's purchase of transistorized television sets. In fact, the documentary evidence and the testimony of witnesses before the subcommittee suggest an incredible and entirely unjustified determination on the part of AID to deal only with the Warwick Co. Within the Agency a record of attempted justification for this action was assembled which is replete with false and misleading statements.

A memorandum written to the president of the Warwick Co. by E. S. White and W. K. Trukenbrod, the Warwick representatives who had met with Winfield early in January 1962, stated in part:

Dr. Winfield felt that it was not probable that the State Department would embark on a large-scale television adult education program this fiscal year because of political as well as other considerations. Among these reasons was the basic reorganization of the AID Division within the State Department. However, following the enthusiasm with which he received the Warwick presentation, he said "*there may be a possibility of a negotiated bid from us this fiscal year for a small set in appropriate foreign country.*" [Italics supplied.]

Thus, on January 3, Winfield told the Warwick representatives that he would consider a negotiated contract with them for a "sole source" procurement even though he had not yet received results of the Signal Corps "test" of the Motorola set. Mr. Winfield testified that he first discussed with Warwick the possibility of negotiating a contract with them as early as April 18, before he had solicited other companies, and he gave this explanation for his action.

Dr. WINFIELD. Mr Hardy, I was operating all through this period of time in the personal belief that the 23-inch receiver and the characteristics that it had was the only one in existence that would meet our requirements.

Now, it is obvious in looking back over this that I was in error and that I handled the situation badly from bad judgment.

In a memorandum of June 12, 1962, Winfield detailed the required characteristics of the desired sets as follows:

They must be able to operate it in almost any environment of heat, cold, humidity, or other adverse conditions, they must with only minor change be able to operate on either American or CCIR standards. They must employ standard transistorized modular construction, be lightweight and much more simple to operate than American television sets. Complete specifications on agency requirements are provided as attachment 3.

Mr. Winfield admitted that the sets purchased from Warwick were not completely transistorized in that one vacuum tube is used; that the set is not of modular construction; that the controls are no simpler than many American sets; and that they do not operate on CCIR

(European) standards and that their use is, therefore, limited to countries that operate on American standards.

Mr. Winfield said his examination consisted of watching the set operate and of opening the back of the chassis to observe the way it was put together from the standpoint of ease of accessibility, arrangement of components and similar factors. The character of his examination is summarized in this testimony:

Mr. HARDY. In other words, you gave it just about the same kind of examination an individual would give if he were looking to buy a set for himself.

Dr. WINFIELD. Yes, that is about right.

He stated that Mr. Walcoff also watched the set perform.

Mr. Winfield testified that he did not have the technical competency to judge the technical aspects of television, although he said he knew the characteristics that he needed as far as performance was concerned. He admitted, however, that although he had sent the Motorola set over to the Signal Corps for testing, he did not send the Warwick set to the Signal Corps because the Warwick set was a hand-built prototype research model and Winfield lacked authority to send it to the Signal Corps. His testimony concerning the nontesting of the Warwick equipment is significant:

Mr. HARDY. Who tested the Warwick set?

Dr. WINFIELD. No one.

Mr. HARDY. So you bought it without testing?

Dr. WINFIELD. Yes, sir.

In Winfield's memorandum requesting the purchase of the Warwick sets, he stated that that company was the only one which had already developed equipment of the type which Winfield required and had shown the interest necessary to make his program a success. He testified, however, that he knew that Warwick did not have a 23-inch set in production. Although his memorandum had stated that Warwick had already developed the equipment, he was not aware of an internal memorandum of Warwick's, dated May 7, 1962. Mr. Trukenbrod wrote to Mr. Rymer (both of Warwick) that on checking with Warwick's engineering and research and development branches:

I get the strong impression that the [Warwick] engineer thinks the model is not fully developed and that there are some problems, including regeneration.

Mr. Winfield's memorandum also stated that Warwick had developed the receiver with its own money, which implied that there would be no research and development charges to the Government. The subcommittee established that the proposal submitted by Warwick included an item of approximately \$130,000 for research and development.

Mr. Winfield testified that the statement in his memorandum that the receiving unit demonstrated by Warwick was so close to meeting AID's requirements that only very slight work was needed to make it completely satisfactory, was based wholly on his observations and was an error in judgment. His following testimony is pertinent:

Mr. HARDY. You were over your head in this, weren't you, Dr. Winfield?

Dr. WINFIELD. Yes, sir; it looks like I was.

That testimony is particularly significant in light of a memorandum of July 6, 1962, written by an employee in Winfield's office who proposed a visit to Warwick and who reported that—

although the receiver is developed in the most basic sense, considerable development and design effort is to be achieved on the power problem, environmental problems, chassis layout, and simplicity problems.

The sets purchased from Warwick cost \$372 each, and packaging for export shipping raised it to \$390. Winfield testified that he received no estimates from other companies on the cost of 23-inch transistorized receivers; however, W. E. Smith, of Winfield's staff, testified that Motorola had informed AID on August 4, 1962, that it would furnish TV receivers built to the specifications on which the contract to Warwick was let at a unit price of \$231.43 on the basis of 1,000 sets without export packaging. This compares to the Warwick price of \$372 per set without packaging, or a savings of \$140.57 per set, a total of \$140,570 for the 1,000 sets "urgently" needed by Winfield. In addition, Motorola offered complete delivery within 4 to 6 months, whereas the Warwick contract does not require delivery of the sets to begin for 17 months, with the completion within 21 months. Perhaps this long leadtime will give AID opportunity to decide what specific use it can make of the sets before it receives them.

Justifying Warwick as Sole Source of Receivers

On June 8, 1962, W. E. Smith joined Winfield's staff as radio and television officer. Mr. Winfield immediately instructed him to prepare a document to justify the sole source procurement of the receivers from Warwick by purchase order. Smith testified that he asked Winfield whether any other company had been contacted and was advised that contact had been made with Motorola, General Electric, Westinghouse, RCA, and Sylvania. Using all the information that had been given to him and based upon the assumption that in fact Warwick was the only manufacturer of a 23-inch transistorized television receiver, Smith said he proceeded to write the justification. He testified that his assignment basically was to prepare a document that Winfield's office could rely upon to support its position that Warwick was the sole source supplier; and that from the information presented to him it appeared to be a reasonably good conclusion, and he prepared the June 12, 1962, memorandum to REPAS.

Among the statements in the memorandum purporting to establish Warwick as a sole source is the following:

To summarize, many manufacturers have been contacted. Both Motorola and GE demonstrate commercial but inferior equipment for the job needs and showed no interest in further developing their equipment. RCA, Sylvania, Westinghouse, and others, after conferring on the program with Agency personnel, have not responded in any way. Only the Warwick Manufacturing Corp. has already developed equipment of the type required and has shown the interest necessary in making this program a success. After more than 18 months' effort in communication with many manufacturers, only one, the Warwick Manufacturing Co. is qualified to our standards.

At Winfield's direction an attempt was then made to carry out the procurement by purchase order. AID's General Services office asked the advice of the General Counsel's office before proceeding with the purchase order. The General Counsel's office advised, under date of June 20, 1962, that it was not proper and added:

In passing, I should like to observe that this seems a rather late date to go through the type of selection, negotiation, and contract preparation procedures necessary for a procurement of this complexity before June 30, 1962.

Having been rebuffed in his effort to put through a purchase order, Winfield, with Mr. Smith, called on Edward E. Kunze, Chief of AID's Contract Services Division, on June 20, 1962. They explained to Kunze that they had an urgent requirement for 1,000 television receivers to be financed by REPAS with fiscal year 1962 funds and that they needed a waiver of the regulations requiring competition so that a contract could be negotiated with Warwick. Mr. Kunze stated that the data submitted to him was not an adequate basis for a waiver but he agreed to consider a sole source procurement if Winfield could prepare an adequate justification therefor after canvassing all potentially qualified manufacturers of television sets.

Mr. Kunze testified that it was a requirement of AID procurement regulations that competition in the form of bids or comparable proposals be obtained where there was any opportunity for competition. Since this procedure normally would take 2 or 3 weeks, it obviously couldn't be followed here because there was not that much time remaining in the fiscal year.

Within a day or two, Kunze received a memorandum, dated June 21, 1962, from Winfield which stated that an exhaustive study of all of the potential sources had been made and that none of the manufacturing firms had indicated an interest or desire to participate in the program. Mr. Kunze said it was his understanding that Winfield had telephoned all manufacturers, that he had discussed the project with them and had ascertained that they were not interested or could not comply with the requirements. He testified, however, that there is nothing in his files to support that statement except Winfield's June 21 memorandum.

Mr. Winfield's June 21 memorandum was prepared for his signature by his assistant, Smith, and it is interesting to review the manner in which the foundation was laid for this document. Mr. Smith testified that he made telephone calls to six companies whose names he selected from a trade publication. He said he did not telephone RCA, General Electric, or Westinghouse because Winfield had contacted them earlier in 1962. He called Motorola, whose sales manager was out and did not return Smith's call as requested.

The precise questions Smith asked the television manufacturers are not clear from his testimony. He made no memorandum of his conversations until sometime later, on July 6, 1962. He recalls that the companies that he talked to (Zenith, Admiral, Emerson-Du Mont, Magnavox, Sylvania, and Philco) were asked if they were producing a 23-inch set, but Smith's testimony was unclear as to whether he asked all of those companies whether they could produce such a set in a reasonable time. He admitted that it was entirely possible that any

U.S. firm that was in the television business could make a transistorized television receiver if they had as much time to do it as Warwick.

The nature of the questions asked by Smith in his telephone contacts with the six companies for the justification memorandum can perhaps be best determined by the impression he left on persons he called.

At the hearing there was read into the record a portion of a memorandum from the files of one of the television companies called by Smith:

Mr. Gene Smith of the State Department called me relative to availability and the possibility of procuring 23-inch transistorized TV sets. They are interested in an immediate 1,000 such units and in the near future, this demand could reach 25,000. These instruments must be capable of being powered by twelve-volt batteries. The sets are needed in the many small villages around the world such as South America, Africa, and South Asia, where in the villages they are within receiving distance of a TV transmitting station, but do not have sufficient local power to operate a regular AC-DC set. * * * Mr. Smith suggests that if we have any interest in this area, and are presently planning to do research work toward this end, he would be most happy to have us consult with his Department relative to development of such instruments.

Quite obviously, this sales manager got the impression from Smith that he was being asked whether or not his company was interested in a long range research and development program, not that there was any urgency to the matter.

Smith admitted that in talking with Emerson he did not tell the Emerson representative that he was interested in present procurement. He explained this on the ground that Emerson did not have transistorized units nor did they have a 23-inch set available, nor would there be one in the near future. Emerson suggested to Smith that he communicate with Motorola but as previously stated, Smith testified that he attempted to do so but did not reach the person he called. He stated, however, that the Motorola representative contacted him *after the award had been made to Warwick* and the purport of that conversation was put into a letter from Motorola to him which, so far as pertinent, reads as follows:

Ours, I am so pleased to say, developed into a most refreshing visit over the phone yesterday. Early in the day I had expressed to Dr. Edward Fei how taken aback we at Motorola were on noting for the first time through press releases that an AID educational television project for 1,000 transistorized television receivers had been awarded to Warwick.

To be sure, we felt let down, and rightly so, if only because we had rather nursed and nourished a battery-operated ATR operation for the underdeveloped operations with ICA from its very early stages as a concept.

The kickoff of such a program without Motorola in the picture is going to be an experience. I am rather well convinced it is like looking forward to uncorking a fresh bottle of soda only to find the fizz is all gone.

I am chagrined not over losing the contract but rather because we were apparently unaware of the fact that a specific contract was to be let out and therefore didn't get the opportunity to bid on it.

In his letter of April 26, 1962, a portion of which I read to you over the phone, John Reilly noted the failure of the battery operation in the test set we had supplied, but otherwise was most complimentary regarding the construction and performance of the set. I was rather led to believe from his remarks in the letter that the ICA would continue to work and communicate with us in the refinement of its program requirements to the extent that I was completely disarmed concerning the intent of the ICA to let out a specific contract which it is now evident was imminent at that time.

We have this invaluable experience at hand right now. We don't have to wait to get it or guess at it in advance, nor would AID have to pay us to learn it or otherwise acquire it. Also, we have a product available for delivery today, not many months from now, and we can design and produce the product AID specifies in what I believe would be a shorter period and at more attractive costs than any manufacturer I know on the American scene.

It is obvious to the subcommittee that the exercise which Smith went through in contacting some manufacturers of TV sets was simply window-dressing to attempt to justify the determination of Winfield to award the contract to Warwick as the sole source of supply.

The Contracting Procedure in Operation

Mr. Kunze testified that AID regulations require competition among suppliers whenever possible, and that failing formal advertised competition, AID should get comparable proposals. However, he said, when the contracting officer finds that there is justification for a sole source, neither competition in the form of bids nor comparable proposals are necessary, and may be waived.

He said that he accepted the statements in Winfield's memorandum of June 21 as being accurate, valid and in good faith to justify sole source procurement. He signed a waiver of competition, a procedure permitted under AID regulations where a contracting officer certifies that there is a sole source. Winfield's certification was that:

CRD [Communications Resources Division] has contacted the 11 firms which to the best of our knowledge are the only firms in the United States which might have been able to provide the desired services. Of the 11 firms contacted only one (Warwick Manufacturing Corp.) was able and willing to develop and supply these receivers.

The basis on which Kunze made the determination not to require comparable proposals was "urgency," the urgency being the fact that the funds were going to expire on June 30, and, additionally, that Winfield and Fei had said there was an urgent requirement to "get on" with this project. He felt that the circumstances presented to him in the memorandum of June 21 amounted to an adequate justification for sole source procurement, although he said that he would have much preferred to get competition. He admitted that although he

had the right to ask for evidence to support Winfield's statement he had not done so.

Having signed the waiver, he then asked Julius Kessler, his assistant, to assign a negotiator to finish the job before the 30th of June. Kessler assigned the matter for contract negotiation and execution to Robert Daughtridge, a contract negotiator.

Mr. Daughtridge testified that the matter was turned over to him late in the afternoon of Friday, June 22, and that he reviewed the documents on Monday, June 25. It was his understanding that he would have to complete his work by Friday, June 29. His review of the documents left him with the opinion that they were insufficient for him to determine what AID was paying for, or to establish how the contractor arrived at the proposed unit price. He therefore telephoned the contractor and asked for a cost analysis, and invited representatives of the Warwick Company to confer with him at 9 a.m. Thursday, June 28.

In the process of negotiation, Daughtridge solicited the assistance of the General Counsel's Office and was advised that before proceeding with the negotiation the prospects for formal advertising should be investigated.

From the testimony of AID witnesses it is clear that there is no uniformity in the Agency as to which contracts require legal review, it having been left to the various offices having contracting powers to determine which contracts must be reviewed by the General Counsel's Office.

Problems of Negotiation

In the absence of competitive bidding or comparable proposals, negotiators are handicapped in arriving at the lowest cost and best terms to the Government. However, in his negotiation of the Warwick contract the negotiator was further handicapped by interference from within the Agency. On Friday, June 29, 1962 (the last working day of fiscal year 1962), Mr. Daughtridge, the negotiator, and the Warwick representatives had reached an impasse at the conference table on price. Mr. Daughtridge was trying to get Warwick to lower the unit price to between \$330 and \$350, and Warwick was balking at any price lower than \$372. At that crucial point Dr. Edith Lord, of REPAS, appeared on the scene.

Dr. Lord is a psychologist and educator who joined the REPAS staff as a behavioral scientist. By her own admission she has no competence or experience in the television or radio fields; however, Fei assigned her the job of finding and improving research projects in communications. He also assigned her to be in charge of the broad scheme and content of the research involved in the Warwick contract; i.e., the problem of using communications media in education in underdeveloped areas.

There was a conflict of testimony in regard to the discussion which then took place between Miss Lord and Mr. Daughtridge. According to Daughtridge, he called Miss Lord to one side and informed her he was attempting to get the unit price down but had been unsuccessful in reaching that goal; at that point, Miss Lord said that \$372 was the best he could get and she seemed to think that the price was fair and reasonable. Miss Lord's version was that she had no way of

knowing what a fair and reasonable price is for a piece of equipment and that—

As I recall the conversation, I simply asked, "How is it going?" and he said, "We seem to be at an impasse." They were asking, what was it, \$372, I think, and he said, "We are at a complete impasse; we can't move."

I am not positive of my words, but to the best of my recollection they were something like this: "If that is the best price you can get, why not take it?"

On June 28, the day previous to her controverted statement to Daughtridge, Miss Lord and Winfield dropped into the negotiations during a coffee break, at which time Miss Lord made a comment as to who would sign the contract. Precisely what she said is in conflict. An interoffice Warwick memorandum of July 2, 1962, states that she and Winfield visited the negotiators on June 28 "and indicated that Dr. Edward C. Fei, Acting Director REPAS, would sign the contract instead of going through the regular procedure." Although Miss Lord denied saying that Fei was going to sign the contract, and stated that she said only that Fei now had authority to sign, she admitted that Warwick representatives could have known from her comment that Fei would sign the contract.

It thus is clear that on the day before the price impasse was reached, the contractor had been given to understand that Fei was going to sign the contract. It is reasonable to assume that the contractor could stand firm, for it looked like the deal was in the bag; Winfield wanted the sets, REPAS was in accord, the money had to be obligated immediately or be lost to REPAS, and Dr. Fei was going to sign the contract. Everything was stacked against the negotiator's attempts to get a lower price; the ability of the negotiator to negotiate had been destroyed.

OTHER REPAS CONTRACTS

The Administrator of AID testified that those to whom he had delegated contracting authority were given considerable latitude in working out contractual arrangements, subject to the fact that each of them had his own lawyer. He further testified that anybody who had responsibility for spending any significant amount of Government money or making any commitments should have to get legal clearance. He stated that he would review the record of the instant hearing and within 30 days report to the subcommittee the results of that review on the question of whether the present dispersal of contracting authority might be too wide. The Administrator had praise for Dr. Fei's abilities as a researcher but he stated his belief that he had made a mistake in putting upon him the responsibility for the business aspects of the research program.

APPENDIX

LIST OF CONTRACTS LET BY REPAS DURING THE LAST 6 MONTHS OF FISCAL YEAR 1962

<i>Project title</i>	<i>Fiscal year 1962 obligation</i>
1. International Air Transport Study.....	\$50, 000
2. Malaria Eradication Research.....	235, 000
3. Research on the Use of Tropical Woods.....	15, 000
4. Research on the Shortage of Power in Rural Areas.....	458, 194
General Electric and subcontracts to MIT, Stan-	
ford Research Institute, CARE.....	(\$355, 000)
Fairbanks-Morse.....	(74, 569)
Hoffman Electronics Corp.....	(28, 625)
5. Relationships Between Military and Economic Assistance.....	26, 262
6. World Trade Patterns Projection and Analysis.....	35, 000
7. Quantitative Study of Economic Structure and Growth.....	880, 743
8. Development of Planning and Planning Assistance Criteria.....	735, 598
9. Participant Training Evaluation Survey.....	276, 000
10. Investigation of the Applicability of Recent Educational Devel-	
opments to Africa.....	204, 512
11. Land Reform Activities in Latin America.....	1, 250, 000
12. Basic Research on Job Performance Standards.....	284, 030
13. U.S. Public and Private Cooperation in Stimulating Indigenous	
Economic Enterprises in Less-Developed Countries.....	122, 000
14. Land Tenure and Land Reform in Puerto Rico.....	15, 000
15. Malaria Insecticide Research DDVP Field Testing.....	30, 000
16. Transportation and Mobility in the Less Developed Countries....	1, 469, 720
17. Development Research Review.....	53, 520
18. AID Publication Review.....	10, 320
19. Evaluation of AID Participant Training in the United States....	37, 797
20. Development of a Demonstration Educational Research Center....	610, 000
21. Research in Foam Plastics for Housing.....	29, 400
22. Participation in Joint AID/State/USIA Research in Factors Con-	
tributing to Maladaptation of Government Employees Over-	
seas.....	2, 500
23. Communications and Technical Change in Latin America.....	70, 000
24. Evaluation of Popular Reception of the Alliance for Progress in	
Five Latin American Countries.....	120, 000
25. The Potential Role of Television in Community Instruction for	
the Support of Social and Economic Development.....	400, 000
26. Legal Aspects of Land Reform.....	340, 000
27. Research on New Techniques for Training Teachers of English....	410, 960
28. Health Manpower Training.....	234, 684
29. Research on Use of Arid Land in United States.....	40, 000

